

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

DIVISION OF ACCOUNTING

STATEWIDE SUPERCARD

PERFORMANCE AUDIT

FISCAL YEAR ENDED JUNE 30, 2008

FIELDWORK END DATE: APRIL 15, 2009

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State of Delaware
Office of Auditor of Accounts
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At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. The Statewide SuperCard Program was selected in order to test the centralized oversight activities at the Department of Finance, Division of Accounting (DOA), decentralized activities at a sample of agencies and departments throughout the State, and to follow-up on findings and recommendations made by the Office of Auditor of Accounts (AOA) in the June 30, 2005 Statewide SuperCard Audit Report.

Background

The State of Delaware, through the Office of Management and Budget, Government Support Services, contracted with PNC Bank (PNC) through March 31, 2008 and JPMorgan Chase & Co. (JPMC) thereafter during Fiscal Year 2008 to provide State agencies and school districts with a VISA SuperCard program (the Program) for procurement and/or travel purchases. The Department of Finance, Division of Accounting is responsible for the oversight and management of the SuperCard. The Program was implemented on October 1, 1999. All 22 departments identified in the State's *Budget and Accounting Manual* are currently involved in the SuperCard Program, with total statewide cardholders of approximately 4,300. The average total State monthly spending through SuperCards is approximately \$7.1M with an average of 10,963 transactions processed per month.

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DIVISION OF ACCOUNTING – STATEWIDE SUPERCARD PERFORMANCE AUDIT

What We Found

We evaluated the DOA's and department/divisions' systems of internal controls relative to the SuperCard Program to determine if internal controls were adequately designed and implemented to provide reasonable assurance that control objectives were met. Our audit focused on four main objectives, covering the period July 1, 2007 to June 30, 2008:

1. **Determine if the State has an adequate control structure in place over SuperCard transactions to provide assurance of compliance with State procurement law and to prevent or detect fraudulent or improper purchases.**

Based on the results of procedures performed, we noted that the State does not have an adequate control structure in place over SuperCard transactions to provide assurance of compliance with State procurement law and to prevent or detect fraudulent or improper purchases.

2. **Determine if SuperCards assigned to State employees are necessary to perform required job responsibilities and that appropriate transaction and monthly spending limits have been implemented to safeguard the State's assets.**

Based on the results of procedures performed, and in consideration of the minor finding regarding credit application approvals, we concluded that SuperCards assigned to State employees are necessary to perform required job responsibilities. However, we concluded that appropriate transaction and monthly spending limits have not been implemented to safeguard the State's assets.

3. **Evaluate the State's effectiveness in utilizing the SuperCard to reduce purchasing costs and maximize the vendor rebate.**

The State is not effective in utilizing the SuperCard to reduce purchasing costs and maximize the vendor rebate.

4. **Evaluate the State's effectiveness in monitoring SuperCard purchases to ensure that charges are for legitimate business purposes and within designated spending limits.**

The State is not effective in monitoring SuperCard purchases to ensure that charges are for legitimate business purposes and within designated spending limits.

What We Recommend

Overall attention should be focused on consideration of the most cost-effective method for processing each class of transactions, to enable the State to make the most cost beneficial decisions in processing payments to vendors; currently, this type of analysis is not performed by individual agencies or at the Statewide level. In addition, the SuperCard program is not managed appropriately to achieve its program objectives regarding efficiencies and cost savings for State government.

See the *Conclusions* and *Findings and Recommendations* section of this report for further details.

Please read the complete report for a full list of findings/recommendations and to review the responses to our findings.

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Audit Authority

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards, and the U.S. General Accountability Office, which has issued generally accepted government auditing standards.

BACKGROUND

Effective October 1, 1999, the State of Delaware, Department of Finance, Division of Accounting (DOA), contracted with PNC Bank (PNC) to provide State agencies and school districts with a Visa SuperCard program (the Program) for procurement and/or travel purchases. PNC was the contracted vendor from the inception of the Program through March 31, 2008. Effective April 1, 2008, the State changed vendors from PNC to JPMorgan Chase & Co. (JPMC). JPMC was selected due to extensive PeopleSoft experience and the compatibility of JPMC's software program, PaymentNet with PeopleSoft. PeopleSoft is expected to replace the Delaware Financial Management System (DFMS) in July 2010 and has a purchase card component that should eliminate the current monthly billing process.

All 22 departments identified in the State's *Budget and Accounting Manual* are currently involved in the SuperCard Program, with total statewide cardholders of approximately 4,300. All State of Delaware employees are eligible to have a SuperCard. Determination of the employees issued cards, as well as the associated spending limits, are made at the department/division level, based on the individual's job function (such as paying bills or working in the field) and expected travel.

The DOA is responsible for the oversight and management of the SuperCard program. Currently, six employees are assigned to this program: three full-time employees, two casual/seasonal, and one temporary employee. The DOA does not charge agencies for management of the SuperCard program. Instead, the rebates received from JPMC are used to support the expenses of the Program. The remaining rebate revenue is used in the computation of the State's indirect cost rate which is applied to federal grants. The following table illustrates the rebate revenue and the SuperCard program expenditures applied for the last three fiscal years:

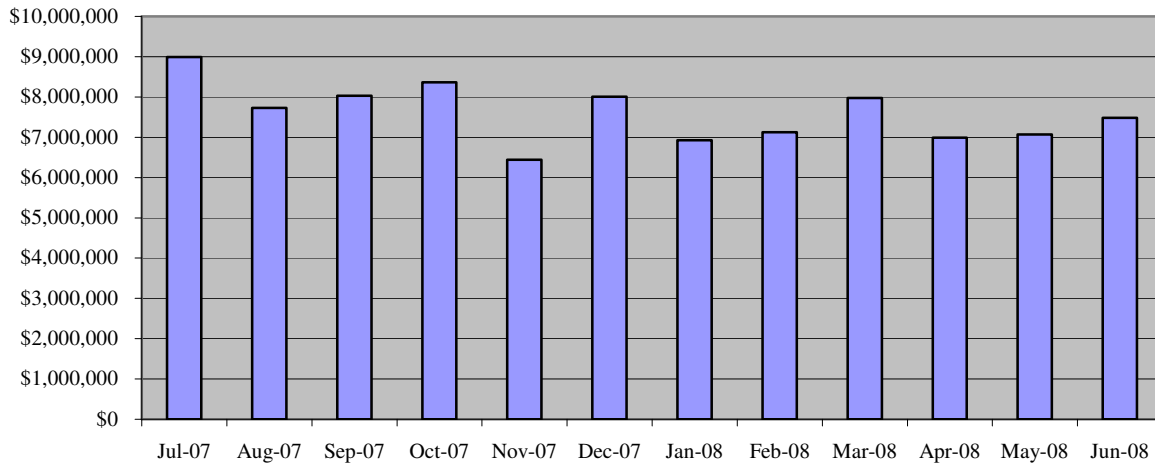
	FY2008	FY2007	FY2006
Rebate Revenue	\$712,399	\$713,648	\$852,942
Less Expenditures Applied	<u>321,751</u>	<u>632,900</u>	<u>157,234</u>
Net Amount to Indirect Cost Rate	\$390,648	\$ 80,748	\$695,708

In addition to the DOA employees noted above, each State department/division has identified at least one employee as "SuperCard Administrator/Coordinator" in order to manage the agency's cards, spending limits, and payment process. There are over 250 program coordinators for all departments/divisions within the State.

The SuperCard was used for over \$85M in expenditures during Fiscal Year 2008. The average total State monthly spending through SuperCards is approximately \$7.1M with an average of 10,963 transactions processed per month. In addition to the credit card function, the State also processes transactions through Automated Card Integration (ACI). ACI is the process of aggregating payment authorizations from various agencies to the same vendor and funding an assigned card number for the total amount. The vendor then charges the credit card to retrieve payment. There are nine vendors that process payments from the State through ACI and, in Fiscal Year 2008, the State processed over 3,500 ACI transactions totaling more than \$5.4M.

BACKGROUND

Statewide SuperCard Program Spending by Month (includes ACI transactions)



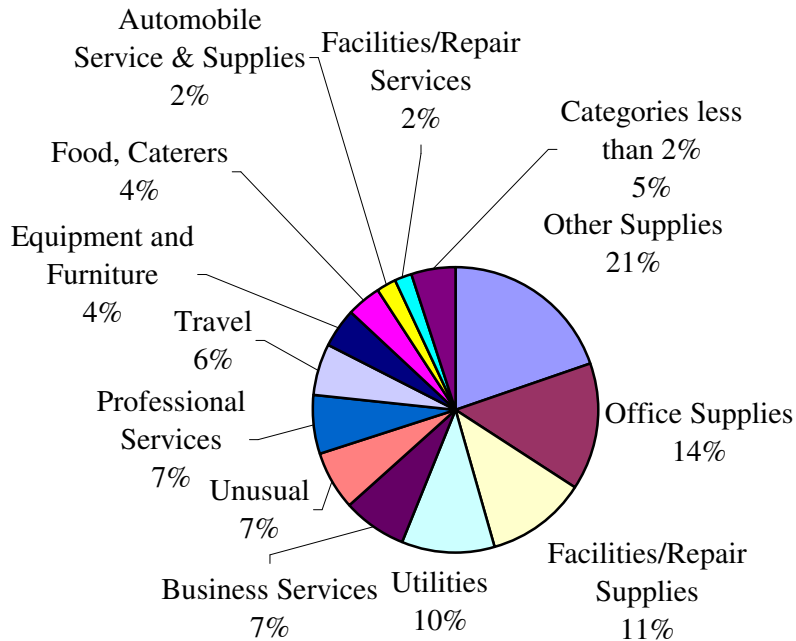
Each vendor is assigned a Merchant Category Code (MCC) which identifies the type of product or service offered. SuperCards are issued to employees with either a travel function, purchase function, or both travel and purchase function. Depending on the type of card issued, certain MCC's are blocked to restrict the purchasing ability of the cardholder. In addition, the State and each agency can opt to block specific MCC's from processing transactions (i.e., drinking places and package stores, pawn shops, health and beauty spas, arcades, bowling alleys, etc.). The following illustrates the top ten vendors paid and the types of purchases made with the SuperCard in Fiscal Year 2008:

Top Ten Vendors Paid with SuperCard

Vendor	Vendor Description	Total Purchases	Number of Transactions	Average Transaction Amount
City of Dover	Electric, Water, Sewer, Trash	\$4,015,462	308	\$13,034
Dell	Information Technology	\$2,292,548	869	\$ 2,638
Verizon Wireless	Communication Services	\$1,994,144	2,522	\$ 791
Karetas Foods, Inc.	Food Distributor	\$1,904,571	70	\$27,208
Office Depot	Office Supplies	\$1,823,770	7,689	\$ 237
Bank of America	Financial Services	\$1,784,031	24	\$74,335
Insight Public Sectors	Information Technology	\$1,770,317	90	\$19,670
Kast Distributors	Food Distributor	\$1,308,782	61	\$21,455
Micros to Mainframes	Information Technology	\$1,143,200	221	\$ 5,173
Oracle USA, Inc.	Information Technology	\$ 927,561	72	\$12,883

BACKGROUND

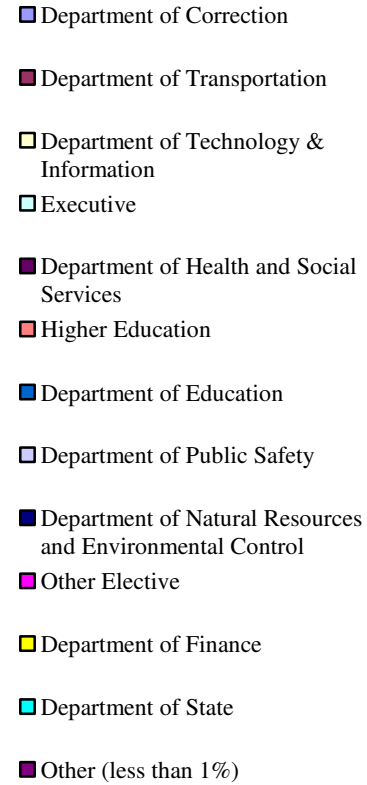
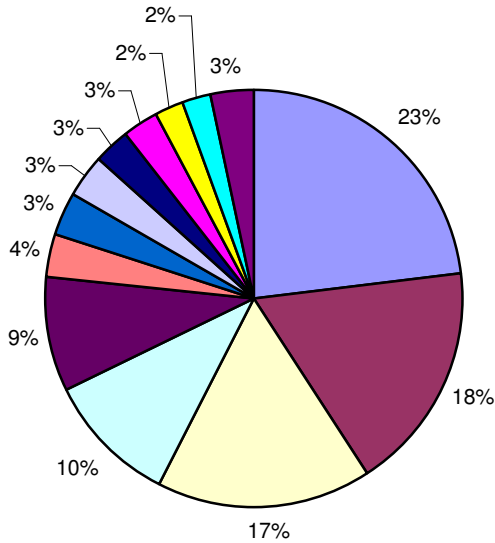
Distribution of Expenditures by Merchant Category Code



Each month, the DOA receives a bill from the credit card company for the previous month's charges incurred by the entire State. After reconciling and paying the amount due, DOA issues Intergovernmental Vouchers (IV) to each agency for their respective portion of the month's charges. It is the agencies' responsibility to then reconcile their transactions incurred by each cardholder, code the transactions accordingly so that they are recorded in DFMS, and process the IV for payment to DOA. The following page illustrates SuperCard spending by department for Fiscal Year 2008 and the number of active cards issued to each department:

BACKGROUND

FY08 SuperCard Spending by Department (does not include ACI transactions)

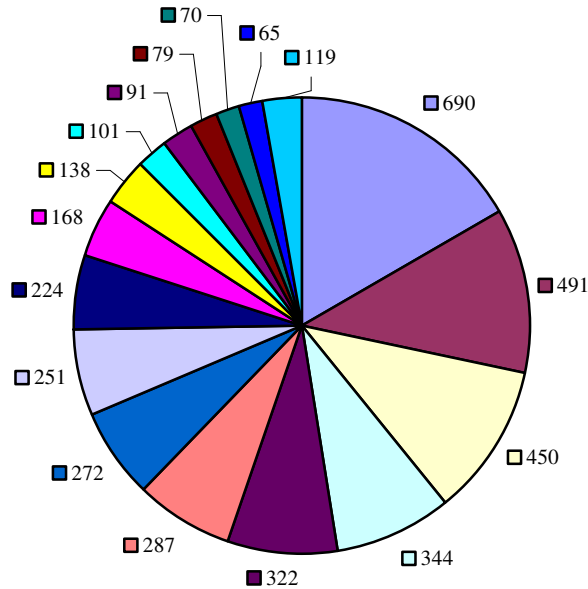


Top Ten Agencies by SuperCard Spending

Agency	Total Purchases	Number of Purchases	Average Purchase Amount
Department of Correction	\$19,839,915	6,236	\$3,182
Department of Transportation	\$15,099,851	14,846	\$1,017
Department of Technology & Information (DTI)	\$14,319,959	2,819	\$5,080
Executive Department	\$ 8,885,294	14,199	\$ 626
Department of Health and Social Services	\$ 7,478,622	13,543	\$ 552
Higher Education	\$ 3,031,522	12,470	\$ 243
Department of Education	\$ 2,855,556	12,255	\$ 233
Department of Public Safety	\$ 2,641,274	6,445	\$ 410
Department of Natural Resources and Environmental Control	\$ 2,534,382	14,687	\$ 173
Other Elective	\$ 2,332,939	1,334	\$1,749

BACKGROUND

Distribution of Cards by Department



- Department of Health and Social Services
- Department of Natural Resources and Environmental Control
- Higher Education
- Services for Children, Youth and Their Families
- Department of Public Safety
- Department of Education
- Executive
- Department of State
- Department of Transportation
- Department of Correction
- Department of Labor
- Department of Finance
- Department of Technology & Information
- Legal
- Other Elective
- Judicial
- Less than 50

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

The Statewide SuperCard Performance Audit included four objectives:

1. Determine if the State has an adequate control structure in place over SuperCard transactions to provide assurance of compliance with State procurement law and to prevent or detect fraudulent or improper purchases.
2. Determine if SuperCards assigned to State employees are necessary to perform required job responsibilities and that appropriate transaction and monthly spending limits have been implemented to safeguard the State's assets.
3. Evaluate the State's effectiveness in utilizing the SuperCard to reduce purchasing costs and maximize the vendor rebate.
4. Evaluate the State's effectiveness in monitoring SuperCard purchases to ensure that charges are for legitimate business purposes and within designated spending limits.

SCOPE

The scope of the audit included centralized oversight activities at DOA and decentralized activities at the following divisions/agencies within departments throughout the State:

Department	Division/Agency Tested within Department
Department of Correction	Administration
Department of Transportation	Division of Highway Operations
Department of Technology & Information	Operations Office
Executive	Office of Management and Budget
Department of Health and Social Services	Division of Public Health Division of Developmental Disabilities Services
Department of State	Office of the Secretary Historical and Cultural Affairs

OBJECTIVES, SCOPE, & METHODOLOGY

METHODOLOGY

Our procedures consisted of:

- Reviewing policies and procedures.
- Interviewing agency personnel.
- Identifying SuperCard internal control strengths and weaknesses.
- Testing identified internal control strengths.
- Reviewing transactions for propriety and compliance with internal control policies and procedures.
- Analyzing spending/credit limits and card usage.
- Analyzing the cost of processing SuperCard transactions versus the cost of processing vendor checks.
- Identifying and evaluating methods to maximize the vendor rebate.
- Identifying monitoring activities designed to safeguard the State's assets.
- Overall efficiency review of the SuperCard program to identify areas for operational efficiencies/improvements.

Compliance With Generally Accepted Government Auditing Standards

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSIONS

We evaluated the DOA's and department/division/agencies' systems of internal controls relative to the SuperCard Program to determine if internal controls were adequately designed and implemented to provide reasonable assurance that control objectives were met. Each objective is discussed below.

Objective #1

Determine if the State has an adequate control structure in place over SuperCard transactions to provide assurance of compliance with State procurement law and to prevent or detect fraudulent or improper purchases.

Conclusion

Based on the results of procedures performed, we noted that the State does not have an adequate control structure in place over SuperCard transactions to provide assurance of compliance with State procurement law and to prevent or detect fraudulent or improper purchases.

Objective #1 concentrates on preventative controls. Although the DOA sets the SuperCard control structure for the State, the majority of the controls over individual SuperCard transactions take place at the department/division level where the transactions occur. Therefore, this objective is applicable to the departments/divisions selected for testing and applicable to the DOA only as it relates to ACI transactions and statewide policies for the SuperCard program.

We examined 584 transactions totaling \$9,901,708.08 (10.86% of all SuperCard transactions). These transactions included 475 purchases made by cardholders, 60 ACI transactions, and 49 cash advances.

The following control deficiencies were noted at the department/division level:

- Monthly reconciliations of credit card statements, purchase logs, and IVs were not properly documented and not performed timely.
- Twenty-one cash advances totaling \$13,708.66 did not have sufficient supporting documentation for the use of the funds.
- Forty-nine SuperCard transactions valued at \$2,653,214.03 did not have appropriate management authorization.
- Inappropriate transactions noted included one purchase of \$78.90 for a luncheon during normal working hours and the misuse of nine gift cards totaling \$200.00 used to purchase items instead of utilizing the SuperCard for direct purchases (note: card was used to purchase gift cards, which were then used to purchase the items).
- Five instances of inappropriate use of vendors who were not statewide vendors were noted. In addition, one bid file did not contain proper proof of advertising.
- Four Purchase Orders (PO) were not provided for testing; one PO was not properly authorized; four POs were issued after the transaction occurred; and one PO was not properly reduced when the invoice was paid.

CONCLUSIONS

The following control deficiencies were noted at the DOA:

- The DOA does not have internal policies and procedures that:
 - Define the roles and responsibilities for processing SuperCard payments, issuing IVs to agencies, and processing ACI transactions and payments;
 - Ensure reconciliations are documented and properly approved;
 - Ensure agencies clear IVs in a timely manner;
 - Assign monitoring of SuperCard limits and transactions to the agencies.
- The State of Delaware *Budget and Accounting Manual*, Chapter XIV "SuperCard Purchase/Travel Program" has not been updated since May 5, 2000 and does not reflect current processing procedures. (Note: The chapter was updated March 11, 2009.)
- The DOA did not properly monitor the payment of IVs from the agencies to ensure the payments were received within 30 days. For the three months tested:
 - For 30-60 days, 172 IVs were outstanding;
 - For 61-90 days 44, IVs were outstanding; and,
 - For more than 90 days, reaching up to 234 days outstanding, 20 IVs were outstanding.
- Five of 60 ACI transactions selected for testing were not paid through the ACI process. Instead, the vendors were issued a check. The DOA did not ensure that all vendor numbers were set up correctly so that ACI vendors would receive payment through the ACI process.
- The State did not require JPMC to submit a SAS 70 report to review as it relates to the control structure JPMC has in place over their card services and systems applicable to the State SuperCard program. As a result, the State does not have assurance that JPMC has adequate controls and safeguards over the State's financial data with regard to the systems used to process State SuperCard transactions and data. As a user organization, the State of Delaware is relying on JPMC's control structure to safeguard the State's financial data; however, the State has had numerous issues and complications with JPMC's database, PaymentNet, including the process for fraud notifications and reconciliation of reports which affects the monthly billing statements and ultimately may affect the calculation of the State's rebate. In addition, the State is not performing its due diligence to support reliance on information provided from JPMC's systems.

Objective #2

Determine if SuperCards assigned to State employees are necessary to perform required job responsibilities and that appropriate transaction and monthly spending limits have been implemented to safeguard the State's assets.

Conclusion

Based on the results of procedures performed, and in consideration of the minor finding regarding credit application approvals, we concluded that SuperCards assigned to State employees are necessary to perform required job responsibilities. However, we concluded that appropriate transaction and monthly spending limits have not been implemented to safeguard the State's assets.

CONCLUSIONS

Objective #2 is applicable to the departments/divisions selected for testing. Each department/division determines who is issued a SuperCard and sets and adjusts spending limits as needed. The DOA provides support to SuperCard Administrators and receives the new cards before forwarding them to the requesting agency.

The aggregate statewide spending limit is approximately \$34 million. We examined 115 cardholder accounts with an aggregate spending limit of \$3,270,005. The following control deficiencies were noted at the department/division level:

- There were 68 cardholder accounts determined to have excessive credit limits.
- Of the 6 agencies reviewed, 4 did not perform a documented credit limit review.
- There were 5 cardholder agreements or applications not properly authorized.
- Authorization of credit limit changes was not properly documented.

Objective #3

Evaluate the State's effectiveness in utilizing the SuperCard to reduce purchasing costs and maximize the vendor rebate.

Conclusion

The State is not effective in utilizing the SuperCard to reduce purchasing costs and maximize the vendor rebate.

Objective #3 is applicable to DOA only. As the administering agency, DOA is responsible for implementing procedures that would utilize the SuperCard in an effective manner that reduces purchasing costs and maximizes the rebate.

The following control deficiencies were noted at DOA:

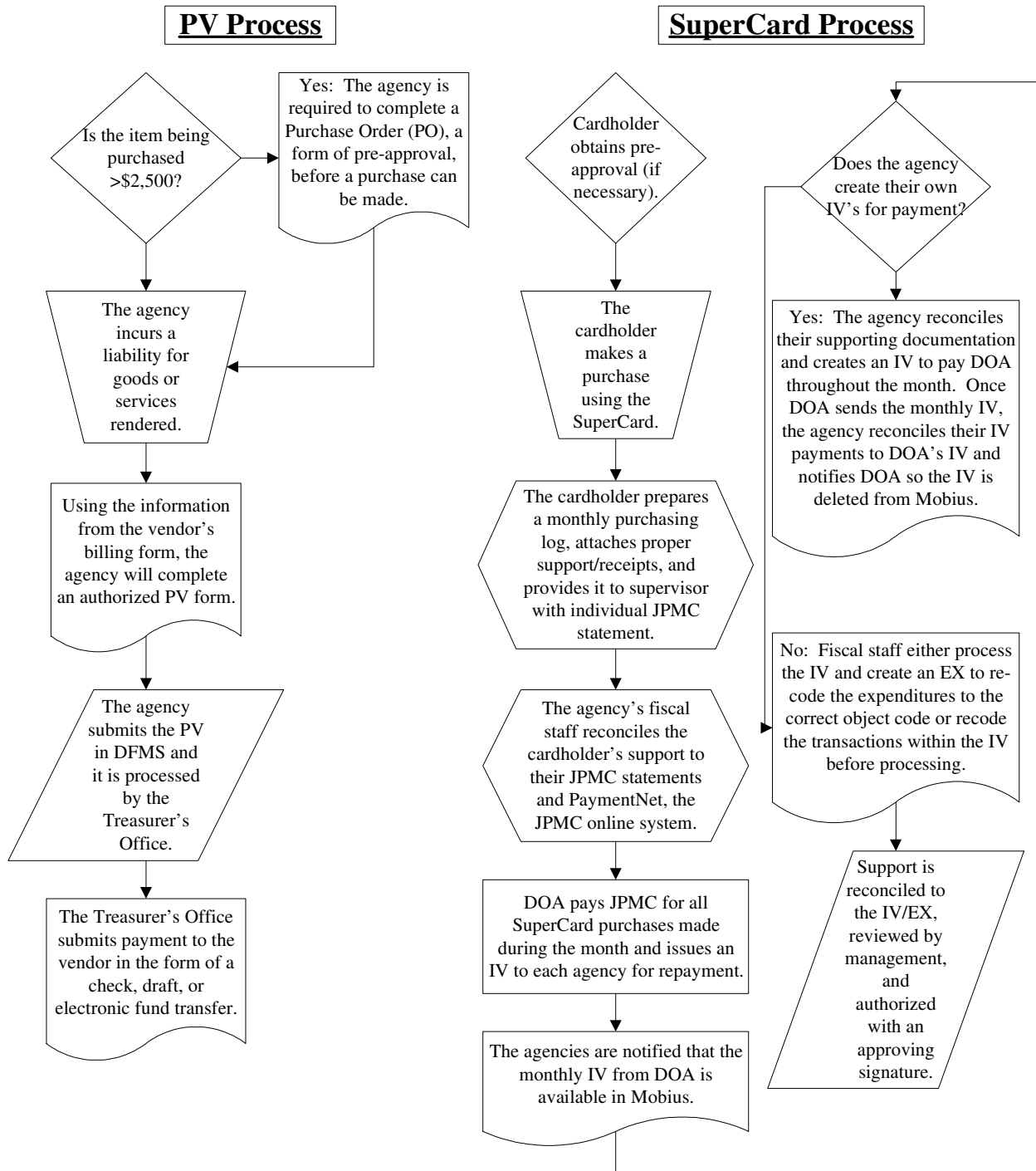
- DOA does not currently have procedures in place to calculate the JPMC SuperCard rebate monthly. Monthly calculation of the rebate is a crucial management tool for DOA to use in determining if the SuperCard revenue is meeting the revenue budget for the respective time period.
- In addition, DOA does not have documentation to support the accuracy of the Calendar Year 2007 rebate (received in Fiscal Year 2008), nor has DOA established a process to recalculate the upcoming Calendar Year 2008 JPMC SuperCard rebate.
- The summary of monthly transactions ("Mapper file") was not reconciled to the monthly billing statement for two of three periods tested. The DOA paid an April 2008 payment of \$6,197,374.76 and an October 2007 payment of \$7,847,019.07 without support or verification of accuracy. Two ACI payments were made in April 2008 for \$515,764.49 and October 2007 for \$477,708.38 without reconciling supporting documents.
- DOA did not reconcile ACI payments from the agencies to the PaymentNet and Xign systems to ensure accuracy.

CONCLUSIONS

- When DOA billed the agencies to recapture the SuperCard payments, they did not reconcile the amount billed to the amount received from the agencies. As a result, DOA received \$20,972.22 less than billed in October 2007, received \$150,482.49 more than billed in April 2008, and received \$36,512.94 less than billed in June 2008, causing an agency net overpayment of \$92,997.33.
- Per Exhibit B, Incentives and Fees, of the State of Delaware – JPMC SuperCard Commercial Card agreement, the State's SuperCard rebate will be maximized if the State pays the monthly billing within 5 days of receipt. The June 30, 2008 bill was paid 10 days later on July 10, 2008. The estimated rebate for the June billing is \$113,940.98 if paid within 5 days and \$107,367.46 if paid within 14 days. Since the bill was not paid within 5 days, the State may potentially lose an estimated \$6,573.52 of rebate revenue from the June 2008 billing. This amount is currently in dispute with JPMC as of June 2009.
- DOA utilizes Microsoft Access database to aid in the processing of the monthly SuperCard bill. Although the database is password protected, DOA does not monitor or maintain documentation to support the access levels individuals have been assigned.
- DOA did not perform adequate management and analytical functions for the SuperCard Program. AOA performed an analysis of the top 40 vendors paid via payment voucher (PV) through DFMS (by dollar amount) during Fiscal Year 2008 and discovered five vendors that would accept the SuperCard as a method of payment. These five vendors received over \$124 million in State disbursements during Fiscal Year 2008. If these payments had been made with the SuperCard or ACI process, it would have resulted in an additional rebate to the State of approximately \$597,000 (net of additional fees charged by vendors for using a credit card), which represents an 83% increase in the total rebate the State could receive over the amount of the actual rebate received for 2008 of \$712,399.

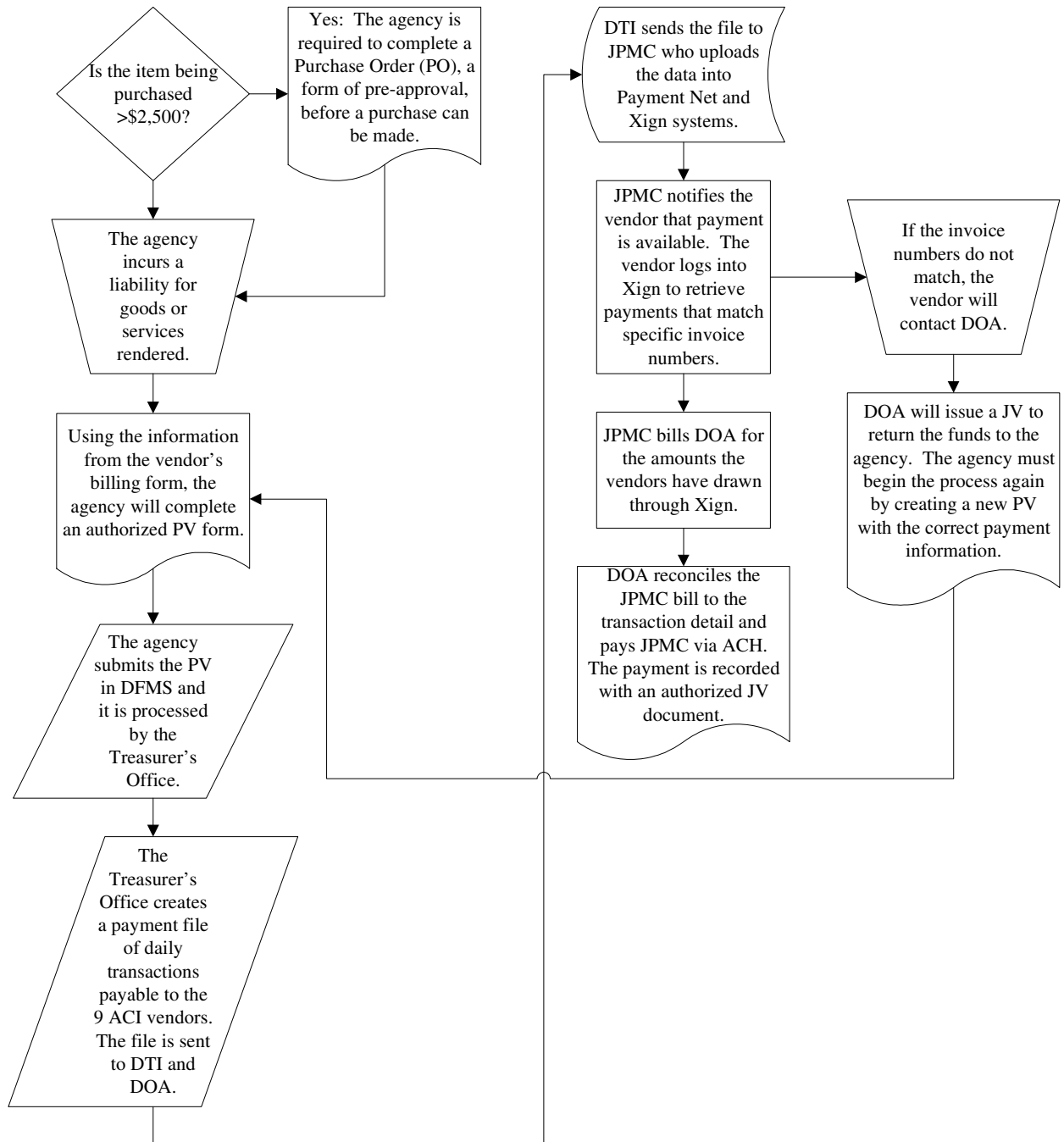
The following flow charts illustrate the procedures necessary for the processing of the PV, SuperCard, and ACI transactions. Although the SuperCard program is much more complex than the PV process, AOA determined that it is more cost effective than the PV process. Using salary and time effort data gathered from departments/divisions selected for testing, the yearly cost for processing SuperCard transactions in these agencies is approximately \$880,000, or \$6.68 per transaction, while the yearly cost for the same number of transactions would have been \$6,577,700 if they were processed with a PV (amount computed using the assessed cost of \$50 per PV as stated in the State of Delaware *Budget and Accounting Manual*). On the contrary, the ACI process is less cost effective than the PV process since it includes generating a PV that is not fully processed through to the actual payment and may result in repeating the entire process if manual errors were discovered. The estimated cost of processing ACI transactions is approximately \$219,000, or \$61.18 per transaction, while the cost of processing the same transactions with a PV is \$178,850. These ACI transaction costs would be further reduced if they were paid directly with the SuperCard, in which case the estimated cost would be approximately \$24,000.

CONCLUSIONS



CONCLUSIONS

ACI Process



CONCLUSIONS

Overall attention should be focused on consideration of the most cost-effective method for processing each class of transactions, to enable the State to make the most cost beneficial decisions in processing payments to vendors; currently, this type of analysis is not performed by individual agencies or at the Statewide level. In addition, the SuperCard program is not managed appropriately to achieve its program objectives regarding efficiencies and cost savings for State government.

Objective #4

Evaluate the State's effectiveness in monitoring SuperCard purchases to ensure that charges are for legitimate business purposes and within designated spending limits.

Conclusion

The State is not effective in monitoring SuperCard purchases to ensure that charges are for legitimate business purposes and within designated spending limits.

Objective #4 is applicable to the DOA only. As the oversight agency and primary contact with the contracted credit card provider, the DOA is alerted to suspicious or unusual activity by the agencies and the provider. The DOA has access to statewide activity reports and can monitor purchases with varying criteria.

The following control deficiencies were noted at the DOA:

- Fourteen SuperCard Administrators at DOA had access to change their own account information; two of which had active SuperCards. Upon notification, the two individuals with active SuperCards were changed so that they would not have access to change their own SuperCard settings.
- In Fiscal Year 2008, DOA did not monitor SuperCard activity nor did DOA monitor employee credit lines. DOA implemented monitoring of SuperCard activity and credit lines in Fiscal Year 2009 (November 2008); however, the documentation maintained for the reviews is not formal. DOA has not developed procedures for the frequency of reviews, methodology for selecting what is to be reviewed, or basis for conclusions and recommendations. DOA can further maximize efficiency by utilizing standard report templates that are available in PaymentNet and creating custom report templates for the reviews.
- DOA did not monitor disallowed MCC's for compliance during Fiscal Year 2008. The State of Delaware *Budget and Accounting Manual* specifically does not permit cash advances made from within financial institutions through a bank teller; however, \$54,811 of these advances were made in Fiscal Year 2008.

FINDINGS AND RECOMMENDATIONS

DIVISION OF ACCOUNTING FINDINGS AND RECOMMENDATIONS

AOA noted the following SuperCard program findings at the Division of Accounting:

Finding #1 PaymentNet Access Settings

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) identifies segregation of duties as a control activity where "Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions." Segregation of duties is also identified as a monitoring activity. "Appropriate organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies. . . . Also, duties of individuals are divided so that different people serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her suspect activities."

Condition

Fourteen SuperCard Administrators at the Division of Accounting had access to change their own account information; two of which had active SuperCards. Upon notification, access levels for these two individuals were updated so that they would no longer have access to change their own SuperCard settings.

Cause

JPMC advised DOA to set up DOA administrators with self-access to allow them unlimited access to make all possible changes needed within the PaymentNet system.

Effect

Permitting a cardholder to have access to change his/her information does not provide adequate segregation of duties and could lead to fraud, waste, or abuse.

Recommendation

SuperCard Administrators should not have access to change their own account information. DOA should periodically review the user settings of SuperCard Administrators to ensure adequate segregation of duties is maintained.

Auditee Response

We disagree with this finding. There were four individuals (two had access to both PaymentNet and ExacTrac) that had the role of SuperCard Administrator as of June 30, 2008; none of which had the ability to change their own account information. Two individuals had card and self-access which means these two individuals could only view their card transaction information. Six individuals have PaymentNet access but do not have SuperCards assigned to them. All roles are reviewed on a monthly basis.

FINDINGS AND RECOMMENDATIONS

Auditor's Comment

The roles and scopes were obtained as of January 5, 2009 since PaymentNet is a real-time system. According to PaymentNet's definitions of Access Roles, a Program Administrator ". . . can view and configure all PaymentNet settings, transactions, employees (users), accounts and ExacTrac orders (if applicable) within the program administrator's hierarchy and scope" The scope is the range of viewing rights for the specified role and Hierarchy ID. The scope "Hierarchy ID, Self and Children" includes the entire hierarchy level, all levels of hierarchy below the selected level, and the *current user*. The 14 Program Administrators identified in the finding above had this scope assigned to them at the time of testing which would have permitted them to change their own account information.

Finding #2 Policies and Procedures

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives . . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy."

Condition

DOA does not have formal policies and procedures to (1) define the roles and responsibilities for processing SuperCard payments, issuing IVs to agencies, and processing ACI transactions and payments; (2) ensure that reconciliations are documented and properly approved; (3) ensure that agencies clear IVs in a timely manner; (4) assign monitoring of SuperCard limits and transactions to the agencies. In addition, the State of Delaware *Budget and Accounting Manual*, Chapter XIV "SuperCard Purchase/Travel Program," has not been updated since May 5, 2000 and does not reflect current processing procedures.

Cause

Lack of adequate staffing to properly manage the SuperCard program.

Effect

DOA employees may not be aware of their responsibilities for reconciling and processing SuperCard payments and IVs and ACI transactions and payments. In addition, due to the lack of updates in the *Budget and Accounting Manual*, agencies participating in the SuperCard program may not be aware that it is the agency's responsibility to monitor credit limits and transactions.

Recommendation

DOA should develop written policies and procedures to (1) define the roles and responsibilities of DOA employees for processing SuperCard payments and IVs and ACI transactions and payments; (2) ensure that reconciliations are documented and properly approved; (3) ensure that agencies clear IVs in a timely manner; and (4) assign monitoring of SuperCard limits and transactions to the agencies. In addition, DOA should update the State of Delaware *Budget and Accounting Manual*, Chapter XIV, to reflect the current SuperCard vendor and procedures.

FINDINGS AND RECOMMENDATIONS

Auditee Response

- (1) Written policies and procedures have been developed to define the roles and responsibilities of the SuperCard team and are defined in 2009 performance plans.
- (2) A written escalation process has been implemented to ensure the timely payment of IVs and ACI transactions. Both processes have been fully documented with written policies and procedures.
- (3) We are working closely with State organizations to monitor SuperCard limits on a quarterly basis and transactions on a daily basis.
- (4) When the SuperCard audit began, the Division of Accounting was already in the process of revising the SuperCard chapter of the *Budget and Accounting Manual* to provide written policies and procedures to State organizations on the administration and use of the State's SuperCard, due to the change in credit card vendor. The SuperCard chapter was approved by the Office of Management and Budget and the chapter was posted to their website on March 20, 2009.

Finding #3 Areas for Further Operational Improvements/Efficiencies

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Condition

In reviewing DOA SuperCard operating processes, AOA noted several opportunities for improvement of operational efficiencies:

- DOA obtains information from Transaction History reports on PaymentNet and then enters the information on an Excel spreadsheet for analysis. Management may be able develop reports in PaymentNet that would eliminate the manual data entry and make the process more efficient.
- The Application Programmer makes all data changes based on instructions by the State Accountant II. This is inefficient, as the Application Programmer is not involved in the detailed operations of the SuperCard program and activity.
- The Dispute Report used by DOA is incomplete because it only shows the charges agencies have disputed online. Agencies are able to dispute charges in four ways: online, phone, letter, and on the back of the monthly statement. As a result, DOA has had many difficulties reconciling the monthly bill from JPMC and issuing accurate IVs to the agencies. DOA should instruct the agencies to only dispute charges online so that all of the information is captured for DOA's reconciliation.

FINDINGS AND RECOMMENDATIONS

Cause

Manual processes for data entry of transaction history and data changes, as well as for capturing disputed charges for the monthly reconciliation process.

Effect

Manual processes to enter, update, and analyze data are more susceptible to error. Automation of processes, when available, allows for minimization of human error in data entry and maximization of operational efficiencies for the SuperCard program.

Recommendation

In order to ensure operational efficiencies and reduce costs, management should review Division of Accounting reporting needs and requirements and develop effective automated reports of critical event and operational issues. Certain manual review of data (e.g., the review of JPMC reports DDS codes for the appropriate DFMS numbering format) should be automated. DOA management should develop methods to extract and analyze SuperCard data, and provide the appropriate levels of management with timely information.

For operational efficiencies, processes should be established to affix data corrections and input at the time of discovery or when the transaction is entered into the State system. Exception reporting should be developed, for use in management monitoring to ensure that employees are correctly entering data into the system. Management may wish to utilize a software package other than Microsoft Access (Access) for internal data entry and monitoring purposes, as Access does not contain the type of data access and update controls that are necessary to control financial data. Management should consult with DTI for further assistance in the evaluation of alternative software packages that meet the needs of the DOA, while also providing adequate data access and update controls over the financial data.

In an effort to ensure uniformity, DOA should mandate a notification process for agencies to inform JPMC of disputed charges.

Auditee Response

We agree that more automated processes should be put into place for report processing within PaymentNet and will work with JPMC for better report capabilities. In the meantime, we have started developing reports from direct downloads of data for analysis purposes.

Prior to additional staffing in the SuperCard section, the application programmer assisted with the reconciliation of the monthly bill; not only for reconciliation purposes but also to aid with segregation of duties. Since new staff has been added, the application programmer is no longer involved in the reconciliation process.

We updated the *Budget and Accounting Manual* SuperCard chapter for handling of disputes. When the chapter was revised, specific responsibilities for the cardholder and the coordinator were defined. Currently all disputes must be recorded in PaymentNet only.

FINDINGS AND RECOMMENDATIONS

Finding #4 Unauthorized Journal Voucher (JV)

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . policies and procedures that help ensure management directives are carried out. . . ." Management review controls are defined as the activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure.

The State of Delaware *Budget and Accounting Manual*, Chapter II, defines authorization as a control objective that should be used by management and financial managers. Authorization is defined as "ensuring that all transactions are approved by management."

The State of Delaware *Budget and Accounting Manual*, Appendix K, defines Journal Vouchers (JV) as documents "used by the Division of Accounting to record and document accounting events not covered by any other DFMS transaction. The offsetting entries are not generated by DFMS and therefore must be included on the JV." Appendix K also includes a copy of the journal voucher template, which requires the signatures lines to be completed by the preparer ("Prepared By"), and two levels of reviewers ("Approved By," and "Approved by Division of Accounting").

Condition

The Division of Accounting issued JV #25RACIPA08001 without the proper approving signatures, as required by statewide policies and procedures included in the *Budget and Accounting Manual*.

Cause

Minimal staffing within the Division and a weak internal control structure regarding transaction document approvals.

Effect

The State's assets may be at risk if management does not adequately review and authorize transaction documents (including journal vouchers) to ensure the accuracy and validity of transactions being processed within DFMS, the State's financial system.

Recommendation

The Division of Accounting should implement stronger internal controls to ensure transaction documents are properly authorized before being entered into DFMS.

Auditee Response

The proper internal controls were in place in DFMS, allowing the JV to process with one internal electronic signature. However, we agree that documentation of proper authorization on only this particular JV was lacking. Internal control staff in this office performed a review of all 65 JVs processed in FY08 to ensure that proper approving signatures were obtained and found no other instances where a JV lacked proper approving signatures.

FINDINGS AND RECOMMENDATIONS

Finding #5 Rebate Recalculation

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as " . . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. . . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy."

In addition, the State of Delaware *Budget and Accounting Manual*, Chapter VIII states, "All invoices, bills, statements, letters, vouchers and other documents pertaining to these receipts shall be preserved and systematically filed by each agency."

Condition

DOA does not currently have procedures in place to calculate the JPMC SuperCard rebate monthly. Monthly calculation of the rebate is a crucial management tool for DOA to use in determining if the SuperCard revenue is meeting the revenue budget for the respective time period.

In addition, DOA does not have documentation to support the accuracy of the Calendar Year 2007 rebate (received in Fiscal Year 2008), nor has DOA established a process to recalculate the upcoming Calendar Year 2008 JPMC SuperCard rebate.

Cause

Lack of management oversight regarding the calculation of the rebate to ensure the completeness and accuracy of the rebate amount reported by the SuperCard vendor (PNC for the 2007 rebate and JPMC for the 2008 rebate).

Effect

SuperCard rebates may not be accurate which could result in a loss of potential revenue.

Recommendation

DOA should establish procedures to calculate the SuperCard rebate monthly, including comparison of the rebate to budget projections for the month. In addition, procedures should be established to compare the annual rebate received from JPMC against the State's calculation, and differences from the State's calculated expectation, if any, should be researched and resolved timely. DOA should also ensure that all documentation pertaining to the rebate is properly maintained.

Auditee Response

We disagree that there was lack of management oversight and with the finding. The rebate has been consistently recalculated at the end of the year, since the inception of a rebate. The contract with the provider bank stipulates that the rebate is based upon an annual volume spend threshold. The spend has been consistently tracked on a monthly basis so we know on a daily, weekly, monthly basis, or at a glance whether we are on track for meeting the annual spend limit in order for the rebate to be calculated. Once the annual spend is reached, additional items are included in the rebate calculation such as large dollar volume and average transaction spend. There is no value added for staff to calculate a monthly rebate.

FINDINGS AND RECOMMENDATIONS

Auditor's Comment

Documentation of the recalculation of the Calendar Year 2007 rebate was not provided, and, according to DOA management at the time the information was requested, the recalculation was not performed. Further, DOA should adequately document the monitoring of the spend volumes and projections as described above that ensures the State is entitled to a rebate per the applicable contract terms.

Finding #6 Monitoring of SuperCard Activity and Credit Limits

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter XIV, Exhibit J states, "Audits will also be performed by the Division of Accounting and the Office of the Auditor of Accounts."

In addition, the Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. . . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy."

COSO further states the following regarding monitoring: "Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. . . ."

Condition

In Fiscal Year 2008, DOA did not monitor SuperCard activity, nor did DOA monitor employee credit lines. DOA implemented monitoring of SuperCard activity and credit lines in Fiscal Year 2009 (November 2008); however, the documentation maintained for the reviews is not formal. DOA has not developed procedures for the frequency of reviews, methodology for selecting what is to be reviewed, or basis for conclusions and recommendations. DOA can further maximize efficiency by utilizing standard report templates that are available in PaymentNet and creating custom report templates for the reviews.

Cause

Lack of management oversight regarding the monitoring of SuperCard activity and employee credit lines.

Effect

Without proper monitoring of SuperCard activity and limits, fraudulent SuperCard transactions, and excessive employee SuperCard credit limits could go undetected.

Recommendation

DOA should establish policies and procedures to review SuperCard transactions for potential fraud or abuse, review cardholder settings for excessive credit limits, and should implement these policies and procedures by performing the required monitoring over SuperCard activity and employee credit lines.

FINDINGS AND RECOMMENDATIONS

Auditee Response

We disagree with this finding and that there was a lack of management oversight. We monitored SuperCard activity during Fiscal Year 2008, with the help of PNC staff for the first nine months. Since the contract with JPMC had only been implemented three months, we wanted to accumulate a quarter of data (since credit limits and profiles changed when the new program was implemented) to determine if the credit limits were properly set. In October 2008, we began to perform credit limit reviews on a quarterly basis and transactional audit reviews daily. This process has been formalized and policies and procedures are in place.

Auditor's Comment

The auditee response above confirms that policies and procedures and required monitoring over SuperCard activity and employee credit limits were established and performed in Fiscal Year 2009. Our recommendation remains valid for the period under audit (Fiscal Year 2008), as the auditee addressed the issue subsequent to the end of our audit period.

Finding #7 Reconciliation of PaymentNet Transactions to Monthly Billing Statements

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out." Reconciliation controls are designed to detect if two items are consistent and are an integral part of any internal control structure.

Condition

AOA tested the reconciliations of PaymentNet transactions to the monthly billing statements for three months during Fiscal Year 2008 (October 2007, April 2008, and June 2008) and noted the following reconciliation discrepancies:

The summary of monthly transactions ("Mapper File") was not reconciled to the monthly billing statement for two of three periods tested. DOA paid an April 2008 payment of \$6,197,374.76 and an October 2007 payment of \$7,847,019.07 without support or verification of accuracy. Two ACI payments were made in April 2008 for \$515,764.49 and October 2007 for \$477,708.38 without reconciling supporting documents.

- Upon receiving the monthly ACI invoice, DOA did not reconcile ACI payments from the agencies to the PaymentNet and Xign systems to ensure accuracy.
- When DOA billed the agencies to recapture the SuperCard payments, they did not reconcile the amount billed to the amount received from the agencies. As a result, DOA received \$20,972.22 less than billed in October 2007, received \$150,482.49 more than billed in April 2008, and received \$36,512.94 less than billed in June 2008, causing an agency net overpayment of \$92,997.33.

FINDINGS AND RECOMMENDATIONS

Cause

Lack of management oversight regarding the monthly reconciliation process (of PaymentNet transactions to monthly billing statements) to ensure that billed amounts are complete, accurate, and agree to supporting activity/transaction documentation.

Effect

Lack of timely reconciliation and review (prior to payment) of the detailed transactions to billing statements, may result in the State making an inappropriate or incorrect payment to the vendor.

Recommendation

DOA should ensure that all SuperCard billing statements are reconciled and the resulting IVs billed to the agencies agree to the total billing amount prior to payment being made. The reconciliation process should be complete and all reconciling items should be researched and explained, such that management can obtain adequate assurance of the completeness and accuracy of billed amounts prior to authorizing payment.

Auditee Response

We disagree that reconciliations were not being performed due to the lack of management oversight. There were challenges with the reconciliations of the monthly billing statement; however these challenges were resolved before the end of the fiscal year. Currently, we perform manual reconciliations of this process and all billing statements, mapper files, and IVs issued are fully reconciled. We are eliminating manual processes and are working with JPMC to develop a custom reconciliation process. This custom process will ensure accurate and timely payment and maximize speed-to-pay rebate potential. All JPMC monthly billing statements have been fully reconciled to date. In addition, the ACI invoice and payments to PaymentNet and Xign is a fully automated reconciliation process. This was a major selling feature in awarding the contract to JPMC.

Finding #8 Timely Payment to Maximize Rebate

Criteria

Per Exhibit B, *Incentives and Fees*, of the *State of Delaware – JPMC SuperCard Commercial Card Agreement*, the State's SuperCard rebate will be maximized if the State pays the monthly billing within 5 days of receipt.

Condition

AOA noted that payment for one of three months selected for test work did not fall within the 5 day timeframe to maximize the rebate. DOA did not pay the June 30, 2008 JPMC SuperCard bill within 5 days; it was paid 10 days later on July 10, 2008.

Cause

DOA had difficulty reconciling the June 30, 2008 JPMC invoice and did not receive assistance from JPMC in a timely manner.

FINDINGS AND RECOMMENDATIONS

Effect

The amount of the SuperCard rebate was not maximized. The estimated rebate for the June billing would have been \$113,940.98 if paid within 5 days and \$107,367.46 if paid within 14 days. Since the bill was not paid within 5 days, the State potentially lost an estimated \$6,573.52 of rebate revenue from the June 2008 billing.

Recommendation

In order to maximize the SuperCard rebate, DOA should establish control procedures to ensure that SuperCard payments are made within 5 days of receipt.

Auditee Response

We agree that the June 2008 SuperCard bill was not paid within 5 days of receipt. At the time, JPMC was put on notice that we would not accept the rebate terms for the month because the reconciliation process that JPMC implemented was not in compliance with contract specifications. The State requires the transactional data to balance in PaymentNet in order to pay JPMC the balance due on the billing statement. In addition, JPMC failed to respond in a timely manner to the challenges we were facing with the reconciliation process, given the fact this occurred during the year-end close process. As a result, we have worked with JPMC to develop a custom reconciliation process. The State did not lose the rebate potential for the month of June 2008 due to these communications with JPMC.

Finding #9 Failure to Pay Intergovernmental Voucher (IV) Within 30 Days

Criteria

The State of Delaware *Budget and Accounting Manual* Chapter VII states:

"The State shall make every effort to issue payments to vendors within 30 days of the:

- Presentation of a valid invoice on which a State agency is liable to make payment;
- or
- Receipt of goods or services; if received after the invoice or bill."

In addition, Chapter VIII states, "Each agency having accounts receivable must develop and implement procedures for a positive collection effort and make every reasonable effort to collect all such receivables. . . ."

Condition

The Division of Accounting did not properly monitor the payment of IVs from the agencies to ensure the payments were received within 30 days. For the three months tested:

- For 30-60 day, 172 IVs were outstanding;
- For 61-90 days, 44 IVs were outstanding; and
- For more than 90 days, reaching up to 234 days outstanding, 20 IVs were outstanding.

FINDINGS AND RECOMMENDATIONS

Cause

DOA does not consistently monitor payment of IVs from agencies or follow-up with agencies to process payment within 30 days of the billing date.

Effect

Failure to mandate timely payments from agencies could result in a shortage of funding for the Division of Accounting.

Recommendation

DOA should require IVs to be paid within 30 days of issuance and closely monitor the outstanding IVs for timely payment.

Auditee Response

We agree that in several instances organizations did not make prompt payment to the division within the 30 days as stated in the *Budget and Accounting Manual*. In April 2009, we implemented a formal escalation process. Since this process has been initiated, there has been no need to escalate beyond the Deputy Director level. All IVs have been paid within 30 days as stipulated in policy.

Finding #10 Access Database Security

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. . . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy. . . ."

Condition

DOA does not maintain documentation to support the file privilege levels individuals have for the Microsoft Access database.

Cause

Management was not aware of the need to maintain documentation for system access.

Effect

Security privileges to the Access database are not documented and, therefore, not monitored by management.

Recommendation

Management should document the individuals who have update capabilities to the SuperCard Microsoft Access database. Management should implement periodic procedures to ensure that only authorized individuals have the appropriate security level privileges to the Access database. Management may wish to transition to a database system that is more robust than Microsoft Access for SuperCard transactions.

FINDINGS AND RECOMMENDATIONS

Auditee Response

We disagree; the Microsoft Access database is used to move daily transactional activity data from PaymentNet. Data cannot be reformatted or manipulated and the database is only used as a reporting tool during the reconciliation process. The Network Control Technician II is authorized to print and update reports from the database. The SuperCard team members have access to only print reports. No other employee in the division has access to the database.

Auditor's Comment

This finding was due to the fact that DOA could not provide a list of users and their access levels for testing. AOA was unable to determine what access levels existed and verify which individuals had editing capabilities.

Finding #11 Vendor Acceptance of SuperCard

Criteria

DOA has encouraged State agencies and school districts to use the SuperCard for payment of most vendor transactions. As a result, the standard vendor contract has been amended to include language that the vendors accept the SuperCard as a method of payment. Division of Accounting encourages this use on the beliefs that revenue will be maximized through the vendor rebate and transaction costs for payment processing will be reduced.

Condition

Through discussion with various agencies and review of SuperCard processes, in accepting a SuperCard payment, a vendor incurs a fee that is estimated to be between 3 and 5% of the transaction. For payments to service providers, some of which are not-for-profit organizations, these processing costs can cut into funding available for services or may result in the costs being passed through to the State. As a result, some agencies have opted out of using the SuperCard payment option.

Cause

Agencies have discovered that some vendors may charge more for services due to the additional fees incurred by accepting the SuperCard for payment.

Effect

Agencies that require contracted vendors to accept the SuperCard as the primary method of payment may not be receiving the best pricing for the goods and services due to the large transaction fees incurred by the vendor.

Recommendation

In negotiating vendor contracts, DOA should encourage State agencies to accept the vendor payment option that provides the State with the best pricing.

FINDINGS AND RECOMMENDATIONS

Auditee Response

Since the State receives a rebate if the SuperCard spend threshold is achieved, the SuperCard provides the State with the best payment option, in most payment instances. We recognize that vendors pay a transaction fee on average 2-4% of the transaction amount. However payment utilizing the SuperCard is faster and is often times preferred especially by large vendors. When a vendor is not willing to accept the SuperCard as a method of payment, or the vendor will offer a pricing discount if another payment method is used, we work with the vendor to provide the best payment method. In addition, the 2-4% transaction fee charged by the vendor's bank is often negotiable.

Finding #12 Rebate Not Realized

Criteria

DOA is responsible for the oversight and administration of the SuperCard program.

Condition

AOA performed an analysis of the top 40 vendors paid via payment voucher (PV) through DFMS (by dollar amount) during Fiscal Year 2008 and discovered five vendors that would accept the SuperCard as a method of payment. These five vendors received over \$124 million in State disbursements during Fiscal Year 2008. If these payments had been made with the SuperCard or ACI process, it would have resulted in an additional rebate to the State of approximately \$597,000 (net of additional fees charged by vendors for using a credit card), which represents an 83% increase in the total rebate the State could receive over the amount of the actual rebate received for 2008 of \$712,399.

Cause

The Division of Accounting did not perform adequate management and analytical functions for the SuperCard program. By evaluating vendors' acceptance of credit card payments and analyzing State expenditures paid with the SuperCard, checks, or other methods of payment, etc., DOA could identify efficiencies and increase the State's rebate potential.

Effect

The State is losing potential rebate revenue and incurring additional costs to process PVs instead of utilizing the SuperCard program.

Recommendation

Since DOA has been tasked with managing the State's SuperCard program, DOA should be performing analytical reviews of statewide transaction data in order to maximize the State's rebate and increase efficiency.

Auditee Response

We perform monthly review of DFMS reports; we have instituted specific payment procedures with vendors, and are evaluating potential new SuperCard vendors. These processes help identify vendors who receive large payments or frequent payments from the State in order to determine if the vendors will accept the SuperCard, thereby maximizing the rebate potential. In addition, staff from Governor's Office, Secretary of State, Finance, OMB, DTI, and the State Treasurer's Office are reviewing statewide accounting transactions and business practices to determine the best payment methodology for different transaction types.

FINDINGS AND RECOMMENDATIONS

Finding #13 Improper ACI Coding

Criteria

DOA is responsible for the oversight and administration of the SuperCard program.

Condition

Five of 60 ACI transactions selected for testing were not paid through the ACI process. Instead, the vendors were paid via check from the Treasurer's Office.

Cause

DOA did not ensure that all vendor numbers were set up correctly, so that ACI vendors would receive payment through the ACI process.

Effect

DOA has not captured potential rebate earnings.

Recommendation

Since DOA has been tasked with managing the State's SuperCard program, DOA should ensure that all ACI vendors are properly formatted in DFMS to process through ACI in order to maximize the State's rebate and increase efficiency of the SuperCard program.

Auditee Response

During Fiscal Year 2008, five ACI vendors were paid by check due to organizations circumventing the payment process and changing the vendor suffix on the DFMS SVEN table. We have created procedures regarding the use of the SVEN table and are ensuring the proper formatting is consistent. In addition, we are carefully monitoring the information for the vendors enrolled in the ACI process to ensure it is correct, as well as monitoring the SVEN tables on a daily basis to ensure State organizations are not trying to make changes to vendor records.

FINDINGS AND RECOMMENDATIONS

Finding #14 Lack of Review of JPMC SAS 70 Report

Criteria

Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SAS No. 70 is generally applicable when an independent auditor ("user auditor") is planning the financial statement audit of an entity ("user organization" or the State of Delaware) that obtains services from another organization ("service organization" or JPMC). Service organizations that impact a user organization's system of internal controls could be application service providers, bank trust departments, claims processing centers, data centers, third party administrators, or other data processing service bureaus. A service auditor's examination performed in accordance with SAS No. 70 ("SAS 70 Audit") is widely recognized, because it represents that a service organization has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and related processes. In today's global economy, service organizations or service providers must demonstrate that they have adequate controls and safeguards when they host or process data belonging to their customers. In addition, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on the effectiveness of internal control over financial reporting.

Condition

The State did not require JPMC to submit a SAS 70 report to review as it relates to the control structure JPMC has in place over their card services and systems applicable to the State SuperCard program. As a result, the State does not have assurance that JPMC has adequate controls and safeguards over the State's financial data with regard to the systems used to process State SuperCard transactions and data. As a user organization, the State of Delaware is relying on JPMC's control structure to safeguard the State's financial data; however, the State has had numerous issues and complications with JPMC's database, PaymentNet, including the process for fraud notifications and reconciliation of reports which affects the monthly billing statements and ultimately may affect the calculation of the State's rebate.

Cause

The State did not require a SAS 70 audit report from the vendors during the Request for Proposal (RFP) process or from JPMC in the executed SuperCard program agreement.

Effect

The State's financial data could be at risk. In addition, the State is not performing its due diligence to support reliance on information provided from JPMC's systems.

Recommendation

The State of Delaware should require prospective vendors that will be acting as service organizations to obtain and submit a successful SAS 70 audit report as part of the RFP process.

In addition, the State should amend the existing JPMC SuperCard agreement to require the annual submission of a SAS 70 report, such that the State can review to ensure that existing State policies and procedures and controls are adequate to address all user control considerations and such that the State may be able to gain reliance on information and reports produced by JPMC's systems.

FINDINGS AND RECOMMENDATIONS

Auditee Response

Although, the requirement for a SAS 70 audit report was not initially included in the RFP, a request was made to JPMC on October 6, 2008 for the report. We received a CD version of the report on December 4, 2008.

Auditor's Comment

A copy of the JPMC SAS 70 report covering the Card Services department was provided to AOA in June 2009, subsequent to the end of fieldwork and date of this report.

Finding #15 Manual Cash Advances (MCC 6010)

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter XIII A5(f) states, "Cash withdrawal from within financial institutions **is not allowed** and unavailable from the SuperCard."

Condition

The Merchant Category Code (MCC) 6010 "Financial Institutions - Manual Cash Disbursements" denotes cash advances made from within financial institutions through a bank teller. Cash advances with MCC 6010 totaling \$54,811 were made in Fiscal Year 2008. The Division of Accounting did not monitor disallowed MCC's for compliance with State SuperCard policies and procedures (as detailed in the *Budget and Accounting Manual*) during Fiscal Year 2008.

Cause

The Division of Accounting did not deactivate MCC 6010 when the policy was placed in effect on January 1, 2007.

Effect

State SuperCard cardholders made cash withdrawals from within financial institutions totaling \$54,811 during Fiscal Year 2008.

Recommendation

The Division of Accounting should deactivate MCC 6010 and monitor transactions that occur under this and other questionable MCC's.

Auditee Response

Of the \$54,811 mentioned in the finding, our research revealed that \$15,550 or 29% of the cash advances were made by a bank teller within a banking institution. The remaining \$39,261 were cash withdrawals utilizing the ATM in accordance with policy. Additionally, a memorandum was sent to state organizations informing them of this policy. To further reinforce the need for compliance, the policy was added to the *Budget and Accounting Manual*.

We are working with JPMC to block MCC 6010 and create a special MCC group for state employees who travel internationally. This will allow access to funds from a bank teller while in a foreign country and better control by the division to ensure compliance.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT/AGENCY LEVEL FINDINGS AND RECOMMENDATIONS

AOA noted the following SuperCard program findings at the department/agency level:

Finding #16 Monthly Reconciliations

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out." Reconciliation controls are designed to detect if two items are consistent and are an integral part of any internal control structure. Reconciliation should be clearly documented to allow for re-performance.

Condition

Reconciliations were not properly documented in the following instances:

Office of Management and Budget

- When the individual cardholder statement is reconciled to the purchasing log and other supporting documentation; and,
- When the IV is reconciled to cardholder activity for propriety.

Division of Public Health

- When the cardholder reconciles all receipts to the purchasing log;
- When the individual cardholder statement is reconciled to the purchasing log and other supporting documentation; and,
- When the IV is reconciled to cardholder activity for propriety.

Cause

Lack of detail in department/agency policies and procedures.

Effect

Failure to properly document reconciliations leaves the reviewer to assume items agree or that a reconciliation was not performed and increases the risk that a reconciliation might not have been completed appropriately by the respective department/agency to ensure the completeness and accuracy of information subject to the reconciliation process.

Recommendation

Departments/agencies should ensure that all SuperCard billing reconciliations are adequately documented prior to payment of the IV. All reconciling items should be researched, explained, and properly documented so that adequate assurance of the propriety of the transactions is obtained prior to authorizing payment.

FINDINGS AND RECOMMENDATIONS

Auditee Response

Office of Management and Budget (OMB)

OMB has enhanced their SuperCard Policy to require reconciler to initial and date the credit card statement after they complete the reconciliation of logs and receipts to the credit card statement. In addition, the fiscal officer will verify the reconciliation has been completed by initialing and dating the credit card statement.

Division of Public Health (DPH)

The division does reconcile each SuperCard statement that is submitted. SuperCard users are required to submit a purchase log that has been signed and reconciled to their statement. The division's SuperCard policy states, "This purchase log must be submitted to the DPH Fiscal Office along with the employee's reconciled statement within the allotted FIVE (5) day limit. The Purchasing Log Form must be signed by the employee before it is submitted to the Fiscal Office." The employee's signature on the log is verification of reconciliation. When this log is received by the Fiscal Office, the reviewing manager signs the financial document which, in our opinion, is sufficient to indicate reconciliation has been done. The division will revise its policy to reflect that when an Office of Financial Services manager signs the financial document (either the IV or the EX) that will indicate that the SuperCard statements have been properly reconciled.

Finding #17 Lack of Appropriate Supporting Documentation

Criteria

Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Condition

Supporting Documentation was not properly maintained in the following instances:

Department of Technology & Information (DTI)

- For five cash advances reviewed by AOA, totaling \$1,722.25, DTI could not provide adequate supporting documentation or evidence of proper authorization.

Division of Developmental Disabilities Services (DDDS)

- DDDS did not maintain ledger documentation with the SuperCard transactions. A ledger is important to determine that there is sufficient budget available for the purchase.

FINDINGS AND RECOMMENDATIONS

Office of Management and Budget (OMB)

OMB could not provide adequate supporting documentation or documentation supporting proper review or authorization for 16 cash advances selected by AOA for testing. These advances, totaling \$11,986.41, were disbursed on various trips of personnel with Governor Minner. The Office of the Governor withdrew \$20,708 in cash advances during FY2008, and AOA tested approximately 50% of the transactions. AOA noted the following regarding the \$11,986.41 tested:

- Two transactions withdrawn on the same day totaling \$1,005.50 were described as dinner with the Governor;
- Four transactions withdrawn on consecutive days totaling \$3,571.71 were not supported because the receipts were lost in the mail; however, an authorized affidavit was provided for the transactions;
- Six transactions totaling \$3,709.20 were not detailed enough to track how the funds were spent, listed "cash advance" as the description, and were not properly authorized; and,
- Five transactions did not have prior authorization to withdraw \$3,700 of cash, but the funds were returned, unspent.

Cause

Lack of management review and proper oversight.

Effect

Without proper supporting documentation and review, the department/agency cannot ensure the propriety of the respective SuperCard transactions.

Recommendation

The agencies should maintain adequate supporting documentation and obtain proper authorization for all SuperCard transactions.

Auditee Response

Department of Technology & Information

The Department of Technology and Information (DTI) utilizes an automated travel request and approval system that compliments DTI's Travel Policy. This policy and system guide all DTI employees when planning and approving travel requests. Electronic workflow provides a documented process that carries through the management chain as required by the policy. In the past the CIO did not utilize the automated system. Going forward, all cash advances or purchases will require back up documentation and the Chief Operating Officer (CIO) will review and approve the CIO's travel requests and reimbursements.

Division of Developmental Disabilities Services

DDDS maintains Excel spreadsheet ledgers for all DDDS appropriations and purchase orders including SuperCard transactions.

Office of Management and Budget

Staff will be instructed to follow the Budget and Accounting Policies as well as the SuperCard policies to ensure proper documentation is supplied when incurring business expenses. OMB SuperCard Policy was followed by requiring the employee to submit an Affidavit to document the lost/misplaced receipts.

FINDINGS AND RECOMMENDATIONS

Finding #18 Management Authorization

Criteria

Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines control activities as ". . . policies and procedures that help ensure management directives are carried out. . . ." Management review controls are defined as the activities of a person different than the preparer analyzing and performing oversight of activities performed and is an integral part of any internal control structure. In addition, Chapter VII, Section 12 of the *Budget and Accounting Manual* states, "All invoices, bills, statements, letters, vouchers and other documents pertaining to disbursements shall be preserved and systematically filed by each agency."

Office of Management and Budget

The *Office of Management and Budget SuperCard Policy* states the following:

- "A control sheet will be maintained for each IV. . . . The control sheet will be prepared by designated employees of OMB Financial Operations as IV's are created. It will be reviewed and approved by two OMB Financial Operations employees who are authorized signers of fiscal documents."
- "Purchaser shall attach all documentation, such as itemized receipts and packing slips, to a credit card log. The cardholder will sign the log . . . the cardholder's supervisor will sign the log approving the charges. The log, with itemized receipts and other documentation attached, shall be forwarded to OMB Financial Operations on a weekly basis or monthly basis, depending on frequency of card use."
- "The Backup Coordinator will review spending limits quarterly to determine if any cardholder limits are excessive in comparison to quarterly spending. This analysis will be submitted to the Coordinator, who will recommend spending limit adjustments to the cardholder's supervisor. . . ."

Division of Developmental Disabilities

Division of Developmental Disabilities Services *Internal Control Policy for the SuperCard Program* states, "All purchases are approved in writing prior to placing the purchase on the card." Further, the Cardholder Information Sheet states, "Purchases can only be made when you possess an approved Authorization for Purchase via email from Paul Richard Fiscal Management Analyst or Lawaun Parham, Management Analyst or an approved Travel Request Form."

Condition

Office of Management and Budget

- The agency could not provide evidence of two authorized signatures for the IV control sheet;
- Of 56 transactions totaling \$2,237,202.69 selected for testing, 37 did not contain an authorized purchase log; and,
- The agency could not provide documentation of a quarterly spending limit review.

Division of Developmental Disabilities Services

Twelve of 60 transactions selected for test work totaling \$416,011.34 did not include documentation of management review/approval for payment for the SuperCard transaction. The program manager did sign the related transaction documentation to indicate that the goods or services had been received.

FINDINGS AND RECOMMENDATIONS

In addition, AOA could not determine whether 5 of 60 IVs were properly authorized. The agency maintained carbon copies of the documents but the signatures were illegible.

Cause

Office of Management and Budget

OMB did not adhere to their SuperCard policies and procedures.

Division of Developmental Disabilities Services

DDDS did not adhere to their SuperCard policies and procedures. In addition, the agency did not maintain the properly authorized records. Lack of organization, or misfiling may have contributed to the missing IVs.

Effect

Failure to follow policies and procedures increases the risk that management's directives will not be carried out and the agency's objectives will not be met.

In addition, for DDDS, management does not have documentation that the IVs were properly approved. Failure to maintain financial documents renders the agency unable to reference the document or validate that it was properly approved.

Recommendation

Office of Management and Budget

AOA recommends the following:

- OMB maintain a physical copy of an IV control sheet in their files, allowing for two authorized signers to provide live signatures.
- Management strengthen oversight over the inclusion of purchase logs with cardholder transaction data.
- The agency should document their quarterly spending limit reviews in a spreadsheet or Word document to ensure a review has been performed, and allow for quarterly or yearly comparisons.

Division of Developmental Disabilities Services

Developmental Disabilities comply with their policy requiring that a SuperCard payment be authorized before vendor payment is made.

The agency should maintain legible documentation to ensure the accuracy of records and proper authorization. DDDS should also retain information as described by the *Budget and Accounting Manual* and limit the accessibility of records to avoid misplaced documents.

Auditee Response

Office of Management and Budget

OMB has enhanced their SuperCard Policy to require approval of two authorized fiscal document approvers (either paper or electronic) after they have reviewed and approved the credit card log. Purchase logs will be required for all OMB staff including financial operations staff who make payments to vendors via credit card. OMB has enhanced their SuperCard Policy to require documentation (either paper or electronic) to be maintained on file for quarterly adjustments to spending limits.

FINDINGS AND RECOMMENDATIONS

Division of Developmental Disabilities Services

For all future charges, DDDS will enforce the DDDS SuperCard policy by requiring an approved Authorization for Purchase via email from appropriate staff or an approved Travel Request Form, before a SuperCard purchase is made. It should be noted that these IVs were not missing. They were present, but the actual IV documents were not signed by a DDDS authorized signer. Corrective action is being taken to ensure that all future SuperCard IVs are reviewed and signed by a DDDS authorized signer before being processed.

Finding #19 Late Submission of Reconciliations to DOA

Criteria

Per the Department of Transportation's *State Purchasing Card Program*, "The SuperCard Administrator will review, approval and submit the required SuperCard information to the Division of Accounting no later than the last business day of the month."

Condition

Department of Transportation (DOT)

Three out of three monthly reconciliations selected for test work were not submitted to the Division of Accounting (DOA) by the last business day of the month. Two reconciliations were submitted to DOA approximately two weeks after the last business day of the month, and one reconciliation was submitted to DOA approximately four and a half months after the last business day of the month.

Cause

Lack of management oversight.

Effect

Lack of timely reconciliation and review of detailed SuperCard transactions at the agency level may fail to identify inaccuracies in the underlying reports and records.

Recommendation

DOT should ensure that all reconciliations are submitted to the Division of Accounting by the last business day of the month.

Auditee Response

DelDOT acknowledges that during the audited period the reporting to Division of Accounting was not on regular monthly basis. Many factors impacted the ability to report monthly, including:

- Hiring freeze and staffing vacancies.
- The programs untimely change in vendors administering the program.

Both of these circumstances were outside the control of the department. Subsequently, the department has implemented new procedures and timelines for monthly reconciliation and reporting. It is anticipated that all future submissions will be made in advance of the deadline.

FINDINGS AND RECOMMENDATIONS

Finding #20 Inappropriate Transactions

Criteria

The State of Delaware *Budget and Accounting Manual*, Chapter II states: "The following specific control objectives are widely accepted as elements of good controls and should be used by management and financial managers:

- Authorization – ensuring that all transactions are approved by management. . . .
- Capture – ensuring that all transactions are recorded. . . .
- Classification – ensuring that all transactions recorded are assigned to the proper categories (i.e. assets, liabilities, revenues, expenses) and subcategories (i.e. type of expenses). . . .
- Access – ensuring that only authorized individuals, consistent with their job responsibilities, have appropriate access to assets. . . ."

Department of Transportation

Per Title 29, Del. C. 51 §5112(a), "No full-time employee of the State whose salary is paid by the State shall receive any additional stipend for the purchase of food, be supplied with food or be reimbursed for food that was consumed during normal working hours within the State." Subsection (b) further states, "Subsection (a) of this section shall not apply to . . . "The expenditures of funds for food supplied as part of an agency training function, such as a retreat or workshop, held away from the agency's home location."

Condition

Division of Public Health (DPH)

The division purchased gift cards to provide incentives to clients who complete a health screening interview for the HIV/AIDS Surveillance Program. According to the division's "Incentive Gift Card Inventory" worksheet, nine Wal-Mart gift cards totaling \$200 (four \$25 gift cards and five \$20 gift cards) were purchased with a State SuperCard and then used by division employees to purchase props and supplies for an HIV benefit.

Department of Transportation

There was one instance noted where an employee inappropriately charged lunch to their SuperCard. The lunch included five employees from the Department of Transportation and two union representatives. Per review of supporting documentation, the purpose of the lunch was described as a meeting subsequent to a training held to introduce the Department's new Risk Management Safety Officers to the union representatives and provide an overview of the Department's newly expanded employee safety program. Further research indicated that there was no training prior or subsequent to the lunch. The lunch was held in-State, approximately 15 minutes from the work location.

Cause

Lack of management oversight.

Effect

Using the SuperCard inappropriately circumvents the division's or department's internal control of SuperCard policies and procedures and could result in the misuse of program funds.

FINDINGS AND RECOMMENDATIONS

Recommendation

Division of Public Health

All charges should be directly made with the State SuperCard. In this case, the SuperCard should have been used to directly purchase the items for the HIV benefit. Using a gift card instead circumvents the SuperCard purchasing process for each item purchased. Direct purchases would have required the employee to abide by the division's internal control policies including obtaining written prior approval, retaining receipts, and submitting the monthly purchase log and statement to the Fiscal Office for proper recording in DFMS.

Department of Transportation

The department should closely monitor SuperCard transactions such that it can identify and investigate unallowable purchases in a timely manner. In addition, the department should not allow employees to charge meals to their SuperCard unless they are traveling out of State for an approved business purpose or the purchase is in accordance with the Delaware Code as cited above.

Auditee Response

Division of Public Health

DPH disputes that the cause of this action was lack of management oversight. This finding has nothing to do with the actual use of the SuperCard. We agree that the employees should have requested to use their SuperCards to make the needed acquisitions; however, it was not lack of management oversight that was the cause of the situation. Management (defined as the HIV/AIDS/STD program manager, section chief for Health Promotion & Disease Prevention, the Senior Fiscal Administrative Officer, and the Chief of Administration) was not aware of the situation as the employees simply took the cards to use for another program activity without consulting management. The division, upon hearing of this activity, took immediate action and suspended these two employees' future access to these gift cards. We also reiterated to all program managers that gift cards acquired for client incentives are to be used solely for that purpose and internal control policies that govern these cards have been adjusted to reflect they are to be used only for clients.

Department of Transportation

The Department has reviewed the specific circumstances and agrees that the expenditure was inappropriate and not in accordance with the SuperCard Policy. All parties have been advised of the situation. The employee has agreed to pay back the \$78.90.

Auditor's Comment

We agree that appropriate action was taken by DPH to address the gift card issue after it was identified by the auditor and communicated by the auditor to division management.

FINDINGS AND RECOMMENDATIONS

Finding #21 State Procurement

Criteria

Per Title 29, Del. C. 69 c. 3 § 6923, "If the probable cost of the materiel or nonprofessional service is estimated to annually exceed the threshold amount(s) set by the Contracting and Purchasing Advisory Council pursuant to § 6913 of this chapter, the procurement shall be made only after public advertising and the receipt of sealed bids as provided for in this subchapter. The advertisement for such bids shall be published at least once a week for 2 consecutive weeks in a newspaper published or circulated in each county of the State."

Per the small purchases procedures established by the Purchasing and Contracting Advisory Council, the thresholds for materiel and non-professional services are:

- Open Market Purchase – Less than \$10,000
- Three Written Quotes – \$10,000 to \$24,999
- Formal Bid Process – \$25,000 and over

Condition

Department of Transportation

For 5 out of 60 transactions selected for test work, Department of Transportation (DOT) used non-Statewide vendors and, while the annual cumulative purchase order amounts were greater than \$10,000. DOT did not obtain three quotes or put the contract out to bid in accordance with the requirements of State procurement law per the Delaware Code. In addition, for four contracts, DOT could not provide documentation to support that the contracts were properly advertised in accordance with the requirements of the Delaware Code.

Division of Developmental Disabilities Services

Division management could not provide proof of advertising for one service provider's competitive bid file. In another instance, the division provided AOA with a contract supporting a PO for \$50,000, but could not provide supporting documentation to demonstrate that a formal bid process was completed in accordance with the Delaware Code procurement law.

Cause

Management did not maintain sufficient supporting documentation for active contracts to demonstrate proper advertising of contracts or that the required bid process was followed.

Effect

The DOT and DDDS are not in compliance with the State's procurement policy for the contracts noted above.

Recommendation

Department of Transportation

The DOT should adhere to applicable procurement law requirements for all contracts, including obtaining three quotes when the annual probable cost to a vendor is greater than \$10,000, and putting the contract out for formal bid if the annual probable cost to a vendor is greater than \$25,000.

FINDINGS AND RECOMMENDATIONS

Division of Developmental Disabilities Services

Management should adhere to applicable procurement law requirements for all contracts, and should strengthen retention procedures to require the maintenance of all bid documents until the services are re-bid and the contract is no longer in effect.

Auditee Response

Department of Transportation

In early 2009 the Department initiated a review of the procurement process. This is a multi-divisional initiative which will work to establish Department-wide policies and procedures. This ongoing effort is also part of the Governors Performance Review Process. We will be in compliance with all future purchases and will follow all procurement guidelines.

The condition associated with four contracts not properly advertised – All were advertised in accordance with State procurement policies. Files were located from archives after completion of the audit and made available to audit personnel.

Division of Developmental Disabilities Services

The Department of Health and Social Services will comply with the State Agency General Records Retention Schedule for Accounting and Financial Records - Professional Service Contracts (GAF-085) and will maintain records and documentation until the services are rebid and the contract is no longer in effect.

Finding #22 Purchase Orders

Criteria

Division of Developmental Disabilities Services

Chapter VI, Section B (1)(c) of the State of Delaware *Budget and Accounting Manual* states, "The correct amounts must be charged at the time of the issuance of a purchase order or direct claim payment . . . no agreement or contract shall be entered into, nor expense incurred by any agency which will result in an obligation in excess of the appropriation made to the agency. It is the agency's responsibility to see that funds are in the proper accounts before obligating or expending funds. If the funds are not in the proper account, the transaction must not be processed or submitted to the Division of Accounting."

Department of State

Chapter VI, Section B (2)(a) of the State of Delaware *Budget and Accounting Manual* states, "An agency may create an indebtedness or incur an obligation only by written or printed requisition or purchase order prescribed by the Budget Director, unless exempted by this Manual, and bearing the signed approval: In the case of an agency which is headed by a single official or employee, by that official or employee, or by 2 other responsible employees designated for this purpose by the head official or employee and approved by the Secretary of Finance . . ."

Chapter VI, Section B (e) of the State of Delaware *Budget and Accounting Manual* states, "'After-the-fact' purchase orders will not be accepted. It is each agency's responsibility to process their documents in a timely manner, in proper sequence and in accordance with established procedures. Documents not so submitted will be returned unprocessed."

FINDINGS AND RECOMMENDATIONS

Office of Management and Budget

Chapter VII, Section 12 of the State of Delaware *Budget and Accounting Manual* states, "All invoices, bills, statements, letters, vouchers and other documents pertaining to disbursements shall be preserved and systematically filed by each agency."

Condition

Division of Developmental Disabilities Services

For one of 60 purchase orders (PO) selected for test work, the agency improperly reduced the PO by \$105,095. Per the Division's policy, there are three steps involved in preparing a SuperCard IV at DDDS:

- (1) An Account Specialist data enters all SuperCard activity,
- (2) The SuperCard Administrator consolidates the data by purchase order or direct claim, and
- (3) The SuperCard Administrator prepares the IV.

In this instance, the individual who prepared the consolidation of POs also signed off as the reviewer; as a result the error was not discovered due to lack of management review of the transaction.

Department of State

The Department of State issued PO6040000707 without the proper approving signatures.

The agency also utilized 4 after-the-fact purchase orders.

- Historical and Cultural Affairs coded a July 27, 2007 Office Depot purchase to a purchase order dated in August 2007.
- The Office of the Secretary coded two Office Depot transactions dated 6/6/08 and 6/9/08 to a purchase order dated June 13, 2008 and one transaction to Gartner Group, Inc. for a seminar registration processed on August 2, 2007 to a purchase order dated August 7, 2007.

Office of Management and Budget

The agency could not provide four POs requested during test work and, therefore, proper authorization of the POs could not be verified. These POs related to 11 transactions out of 56 transactions selected for test work.

Cause

Division of Developmental Disabilities Services

Lack of management review and a lack of segregation of duties.

Department of State

Lack of management review.

Office of Management and Budget

Lack of retaining appropriate supporting documentation.

FINDINGS AND RECOMMENDATIONS

Effect

Division of Developmental Disabilities Services & Department of State

The State's assets are at risk if management does not adequately review and authorize transaction vouchers to ensure the accuracy and validity of transactions.

Office of Management and Budget

Failure to maintain appropriate supporting documentation renders the agency unable to demonstrate that the transaction was properly reviewed and approved. In addition, the agency is unable to verify the accuracy and completeness of the information processed on the transaction document.

Recommendation

Division of Developmental Disabilities Services

The agency should properly segregate the preparer and reviewer functions on all financial transaction documents to ensure errors are discovered timely, and to allow for a proper management review of all transactions being processed.

Department of State

The Department of State should implement stronger internal controls to ensure a document is properly authorized and reviewed by management prior to being entered into DFMS.

Office of Management and Budget

OMB should retain supporting documentation for all financial transactions as described by the *Budget and Accounting Manual*, and limit the accessibility of records to avoid misplaced records.

Auditee Response

Division of Developmental Disabilities Services

An additional level of review has been added as a corrective action to ensure that coding errors are caught and corrected prior to processing. With this additional level, the duties of preparer and reviewer are now segregated.

Department of State

The Department of State will continue to be vigilant in ensuring proper approval of documents.

Office of Management and Budget

OMB will continue to ensure file management procedures are followed according to the *Budget and Accounting Manual*. In addition, file management will be audited quarterly by sampling method and documentation will be maintained on file.

FINDINGS AND RECOMMENDATIONS

Finding #23 Credit Limits

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission's report *Internal Control - Integrated Framework* (COSO) defines control activities as ". . . the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. . . . Control activities usually involve two elements: a policy establishing what should be done and, serving as a basis for the second element, procedures to effect the policy."

Department of Transportation

The DOT *SuperCard Policy* states, "Whenever practical, the spending limit on each card should be minimized or set to 'null'."

Condition

We noted that Department/division policies:

- Do not sufficiently define the process of monitoring the credit limits,
- Do not provide an efficient method of determining if a card is necessary to perform required job responsibilities (i.e., cardholders are assigned SuperCards because there is a probability they will be traveling),
- Do not define a process for detecting unauthorized transactions,
- Do not define the agency's internal control structure, and
- Do not define the responsibilities of individuals processing the SuperCard.

Division of Public Health

When credit limits were compared to an employee's highest monthly spend, 30 of 34 cardholders used less than 50% of their credit limits.

Division of Developmental Disabilities Services

When credit limits were compared to an employee's highest monthly spend, 10 of 10 cardholders used less than 50% of their credit limit.

Department of Transportation

DOT did not monitor employee credit limits during Fiscal Year 2008. Although all employees tested were justified to have a SuperCard issued based on their job description and duties, 6 out of 10 employees tested had excessive limits. DOT implemented monitoring of SuperCard activity and credit lines in Fiscal Year 2009 (November 2008); however, the documentation maintained for the reviews is not formal. DOT is in the process of developing procedures for the frequency of reviews, methodology for selecting what is to be reviewed, and the basis for conclusions and recommendations. DOT can further maximize efficiency by utilizing standard report templates that are available in PaymentNet and creating custom report templates for the reviews.

FINDINGS AND RECOMMENDATIONS

Department of State

When credit limits were compared to an employee's highest monthly spend, 5 of 10 cardholders at the Office of the Secretary and 2 of 10 cardholders at the Department of Historical and Cultural Affairs used less than 50% of their credit limits.

Office of Management and Budget

When credit limits were compared to an employee's highest monthly spend, 15 of 21 cardholders used less than 50% of their credit limits.

Cause

Lack of management oversight regarding credit limits.

Effect

Fraudulent SuperCard transactions and excessive employee SuperCard credit limits may have gone undetected.

Recommendation

Division of Public Health, Division of Developmental Disabilities Services, Department of Transportation, Department of State, and Office of Management and Budget should re-evaluate and expand their current policies to:

- Clearly define the monitoring and adjusting of spending limits including maintaining the documentation of the review and adjustments;
- Ensure that SuperCards are issued to employees because it is necessary to perform their required job functions;
- Include procedures for detecting unauthorized transactions; and
- Define the agency's internal control structure by describing the responsibilities of employees involved in the SuperCard process.

Auditee Response

Division of Public Health/Division of Developmental Disabilities Services

This finding appears to allude that there is some policy or statement that dictates the setting credit limits. We could not find any reference to how credit limits are to be established or at what level. DPH permits SuperCard use for only two purposes: travel and small purchases. In fact, the State's travel policy mandates use of the SuperCard for travel purposes. DPH SuperCard policy does not permit any use of the SuperCard for travel without an approved travel authorization form or for small purchases with the permission of the Chief of Administration or his designee. Therefore, we feel the division has adequate control over the use of the SuperCard and determining if a SuperCard is necessary to perform a related job function. In fact, to the best of our knowledge, there has not been any instance of fraudulent use of the SuperCard since its inception in the division. The division set credit limits for staff at sufficient levels in order to enable travel-related charges and office supply order charges to process with minimal disruption to staff. However, the division will adjust its policy to set credit limits based on individuals' history of usage so that there is reduced credit liability to the State. Finally, the division will review its practices on how SuperCards are provided. If we feel an adjustment needs to be made to the policy on card acquisition, we will make those changes.

FINDINGS AND RECOMMENDATIONS

Department of Transportation

The current Statewide SuperCard Policy does not address the issue for decreasing credit limits. It states that agencies should "monitor transactions and credit limits and whenever practical the spending limit should be minimized or set to null." Due to the lack of specific guidance from the Division of Accounting, the Dept was not aware of the criteria of this performance audit.

In November 2008, the Division of Accounting issued a memo informing SuperCard Coordinators that they are required to monitor credit limits on a quarterly basis. Immediately after receiving the memo in November, DeIDOT Finance instituted a quarterly review of all credit profiles and limits. Practices from November 2008 to present meet the auditing criteria.

Department of State

Ongoing monitoring of credit limits will continue. Individual limits will be set at levels necessary for employees to carry out their responsibilities while also minimizing any potential risk to the State. Oftentimes, regardless of an employee's approved limit, we will temporarily set their limit at \$1 during periods of card inactivity. Very recently, as you may know, the Office of Management and Budget updated the State policy for managing the State's credit card program. We are currently reviewing the policy and updating the department policy to include their changes and your recommendations.

Office of Management and Budget

OMB has developed a report, which will enhance the departments ability to track card spend. The data will be monitored semi-annually to evaluate credit limits and make adjustments as necessary. Documentation will be maintained on file to track credit limit adjustments.

Finding #24 Cardholder Agreements

Criteria

Division of Developmental Disabilities

The Division of Developmental Disabilities Services *SuperCard Operational and Internal Controls Policy and Procedures Manual* states: "The Chief Fiscal Officer (CFO) . . . reviews the application to make sure all information is complete and correct. The Chief of Administration signs off on the Agreement and Authorization Form and returns the application and the form to the Agency Coordinator."

Office of Management and Budget

OMB's *SuperCard Policies and Procedures* state, "The Coordinator will be responsible for maintaining a file which shows all applications, signed affidavits, and policies and procedures. . . ."

Condition

Division of Developmental Disabilities

Three of ten JPMC cardholder agreements selected for test work were not authorized by the Chief of Administration until February 17, 2009, the date AOA requested the documents. The division required all cardholders to fill out a new agreement when the JPMC program was introduced in April 2008. Two of the three cardholders above had pre-existing agreements with the PNC program that were properly authorized; however, the agency could not provide a pre-existing agreement for the other cardholder.

FINDINGS AND RECOMMENDATIONS

Office of Management and Budget

The agency did not have a cardholder application on file for 2 out of 21 employees tested.

Cause

Lack of management oversight and failure to adhere to division/agency policies.

Effect

Without proper management review and approval of cardholder applications, incomplete or inaccuracies in information may go undetected.

Recommendation

The agency should ensure that all cardholder applications are properly authorized according to the agency's policy prior to submitting the application to obtain a SuperCard. All documentation should be retained as prescribed by the division/agency's policies and procedures.

Auditee Response

Division of Developmental Disabilities

Corrective action is being taken to ensure that there is a cardholder agreement signed and dated by the cardholder, the SuperCard Coordinator, and the DDDS Chief of Administration for all current cardholders, and that no future SuperCards are issued until there is a cardholder agreement signed and dated by the cardholder, the SuperCard Coordinator, and the DDDS Chief of Administration.

Office of Management and Budget

OMB was created in FY06. One cardholder had an approved SuperCard prior to the creation of OMB and staff were unable to locate an application. The other cardholder had an approved SuperCard prior to transferring to OMB (a result of reorganization of State government) and the cardholder account was transferred to OMB which did not require OMB to request a new credit card, therefore, an application was not on file.

Finding #25 Credit Limit Adjustments

Criteria

OMB's *SuperCard Policies and Procedures* state, ". . . NO credit limit increases will be made without approval from the cardholder's supervisor and the Chief of Administration."

Condition

For 1 of 21 employees selected for test work, OMB did not maintain documentation of the approval to change the credit limit on the employee's account.

Cause

Management was unaware of the need to keep documentation for credit line changes.

Effect

Credit limits may have been changed without the proper approvals.

FINDINGS AND RECOMMENDATIONS

Recommendation

Management should maintain documentation of all SuperCard credit limit changes and ensure that the proper authorizations are obtained before adjusting the limit.

Auditee Response

Although adjustments were processed as necessary, documentation was not maintained on file in all cases. OMB has enhanced their SuperCard Policy to require documentation (either paper or electronic) to be maintained on file for any adjustments to spending limits.

DISTRIBUTION OF REPORT

This report is intended solely for the information and use of the Department of Finance, Division of Accounting, and is not intended to be, and should not be, used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the State Treasurer's Office.

Copies of this report have been distributed to the following public officials:

The Honorable Jack Markell, Governor, State of Delaware
The Honorable Russell T. Larson, Controller General, Office of Controller General
The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General
The Honorable Ann Visalli, Director, Office of Management and Budget
The Honorable Tom Cook, Acting Secretary, Department of Finance
Ms. Valerie Watson, Acting Director, Division of Accounting, Department of Finance
The Honorable Velda Jones-Potter, Treasurer, State Treasurer's Office

Officials of Audited Agencies

The Honorable Rita M. Landgraf, Secretary, Department of Health and Social Services
The Honorable Jeffrey W. Bullock, Secretary, Department of State
The Honorable Carolann Wicks, Secretary, Department of Transportation
The Honorable Carl C. Danberg, Commissioner, Department of Correction
Mr. William Hickox, Chief Operating Officer, Department of Technology and Information